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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000165

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SUBJECT: ANALYSTS WORRIED, GOVERNMENT UNCONCERNED ABOUT
KARS-BAKU RAILWAY

REF: A) TBILISI 263 B) YEREVAN 102

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Classified By: CDA A. F. Godfrey for reasons 1.4 (b, d).

SUMMARY

¶1. (C) GOAM officials' mild public statements about the finalizing of the Kars-Akhalkalki-Baku railway agreement (ref A) belie the significant resentment and frustration they feel about it. Newspapers have been abuzz with analysts' gloomy predictions of further Armenian isolation, and harsh criticisms of the government for its tepid public reaction. The MFA's CIS Director told us February 13 that the GOAM had made a considerable effort to convince Georgia to stay out of the project, but that Georgia did not view its participation as a blow to Armenia. Foreign Minister Oskanian has said publicly the situation won't affect Armenian-Georgian relations. END SUMMARY.

PUBLIC MOOD INDIGNANT AT LACK OF GOAM ACTION

¶2. (C) The Armenian tabloid Haykakan Zhamanak editorialized on February 9 that the Armenian government had done nothing to prevent the railway agreement, and criticized officials for not coming out more harshly against what the paper considers "an open blow to the national security of Armenia."

¶3. (C) Media analysts largely agree that the railway is motivated purely by political malice from its neighbors (especially Azerbaijan and Turkey), and is being built solely to tighten Armenia's noose. Victor Yakubyan of the Caucasus Analytical Center went a step further, accusing Turkey and Azerbaijan of putting Georgia in a tight spot, as well. "I think the strengthening of the Azeri-Turkish 'belt' on Georgia's neck is one of the urgent challenges to the Georgian state system. Tbilisi, after prolonging the negotiations, has yielded," Yakubyan said.

¶4. (C) A more sober commentator, Stepan Safarian, told the press that he believed the agreement would actually harm U.S.-Turkish relations more than it would harm Armenian-Turkish relations, saying that the project creates "dividing lines" in the region, which the U.S. opposes.

¶5. (C) Economist Edward Aghajanov reasoned darkly that the

railway agreement was not just a blockade, but a "final casting-out from the regional projects" that would have severe negative effects on the Armenian economy. He blamed the Armenian government for not being more "diplomatically aggressive" to stop the agreement.

¶6. (C) Visiting Commerce Department DAS Paul Dyck got an earful on the railroad plan from Armenian and Armenian-American business representatives at an AmCham breakfast February 15. The project was practically all they wanted to talk about, complaining that Armenian was being shut out of regional development, potentially laying the seeds for future conflicts for years to come. While many expressed outrage on a purely geopolitical level, others took a more pragmatic line, commenting that Armenia's freight costs (because of closed borders and the lack of rail access to the sea) are significantly higher than the regional average, creating a disincentive for business investment.

GOVERNMENT HOLDS ITS FIRE IN PUBLIC

¶7. (C) FM Oskanian told the National Assembly February 7 that Armenia would not suffer isolation or economic loss from the construction of the railway. He also noted that the railway agreement could only have been avoided if Armenia had been willing to make impermissible concessions to Azerbaijan over Nagorno-Karabakh. Oskanian said that, as Armenia is unwilling to make such concessions, it cannot fault Georgia for choosing to participate in the project. He also pointed out that, while Georgia is of strategic importance to Armenia, Armenia is not strategically important to Georgia. He stated that the railway would not affect Armenian-Georgian relations, noting that Georgia had joined the project for economic purposes.

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¶8. (C) Following considerable criticism in the press, Oskanian released a statement February 9 reiterating his argument that the railway's construction would not harm Armenia economically. He noted that Armenia has been sandwiched between blockading countries for 15 years, and that this railway will not supplant or compete with a currently-operational Armenian railway. He outlined the crux of the problem: "All those who insist that the gas pipeline or the oil pipeline or the railroad could have gone through Armenia, should have known full well that that would have been possible only by relinquishing our rights regarding certain issues which constitute our national interest and a national value. That is the price we would have had to pay; yet we haven't." Deputy Foreign Minister Kirakossian reiterated Oskanian's sentiment in a separate press conference, noting that Armenia's two open borders prevent complete isolation.

¶9. (C) Deputy National Assembly Speaker (and nationalist ARF-Dashnaksutyun member) Vahan Hovhannesian told reporters that Armenia could still find a diplomatic way to "hamper" the project. He also expressed optimism that financial problems will slow the process, thanks to the U.S. Congress' ban on U.S. Government financial support for the project, and said he thought Armenian diplomats should concentrate on securing a similar promise from the EU.

PRIVATE EXASPERATION

¶10. (C) DFM Kirakossian twice highlighted, during a meeting with the CDA and polchief, that the railroad signing deal was a provocative act aimed at Armenia which Azerbaijan, Turkey, and, perhaps as a semi-reluctant partner, Georgia, were undertaking, apparently without any consequences or criticism from the international community. Vardan Hakobyan, the

director of the MFA's CIS desk, told us after the agreement was signed that Armenia had made significant diplomatic efforts to convince Georgia to stay out of the project. He said Georgia had tried to stay on a neutral course, making the point that it would have supported reopening the Kars-Gyumri rail link, had that been a feasible option. Hakobyan reiterated Oskanian's public statement that the railway would not hurt Armenian-Georgian relations.

COMMENT

¶11. (C) Armenian anger over the Kars-Alkakhalaki-Baku railroad plan is pervasive. The government's mild public reaction is another example of top Armenian leaders' practice not to appear weak by venting inflammatory rhetoric against issues in which they know they can have little real influence. Government leaders and average Armenians alike take the railroad as a clear signal of Turkey's continuing resolve -- with Azerbaijan -- to twist its knife in Armenia's back.

GODFREY